ACCOUNTANCY

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The Chancellor's Problem

The Revenue figures for the fiscal year 1940-41 show that there was a "deficit" of £2,458 million, the difference between expenditure of £3,867 million and revenue of £1,409 million. It is necessary to put the word "deficit" in inverted commons, since there are a number of other sources which the Chancellor is drawing upon for funds, apart from revenue proper, and when these are taken into account the gap which is left to be filled, though large enough in all conscience, is substantially smaller than these figures indicate. The other sources include, for example, contributions to war loans, the sale of assets abroad, the use of gold to pay for imports, and the accumulation of resources in various Government funds, such as the Unemployment Fund. The gap—that is, the deficit after making allowance for the various other sources—will be of considerably larger dimensions in 1941-42 than in 1940-41, and may amount to about £1,800 million. If inflation is to obtain no stronger a hold than it already has, as much of that gap must be filled by extra taxation as is humanly possible. That is the Chancellor's problem, and within a fortnight we shall know how he has tackled it. In the meantime, the temptation to indulge in prophecies of an excess income tax, a tax on services, a wages tax, or any other of the several schemes which have recently been suggested, will be resisted.

Changes in E.P.T. ?

The impression that E.P.T. will be changed for the better has gained so firm a hold on the City, however, that another reference to the possibility can do no harm. There does, indeed, appear to be a distinct probability that the Chancellor will announce some concession in the present onerous rate of tax. The case for a reduction has been abundantly made out, and it is difficult to see how any considerations other than political could prevent such an obvious reform. If, however, political opposition is likely to be so strong that it would rule out a straightforward reduction in the tax to, say, 80 per cent., the same could hardly be said of a blocking of, say, 20 per cent. of the tax until after the war. If industrialists paid 80 per cent. tax and received a credit to a blocked account for the remaining 20 per cent., the incentive to produce would be increased.

* * *

The case against the 100 per cent. E.P.T. has been convincingly put to the Chancellor by Mr. Henry Morgan, F.S.A.A., chairman of a committee convened by the Association of British Chambers of Commerce. "Trade and industry," he said, "will continue to do the best they can with the resources placed at their disposal, but with E.P.T. at 100 per cent., one of the most vital of these—finance—is being depleted to an extent that causes grave anxiety." Mr. Morgan went on to say that a straightforward reduction to

80 per cent. would provide a strong incentive towards reduction of costs, with the direct result that the outlay of the various Ministries would fall to a greater extent than the loss of the revenue entailed, when it was remembered that the operation of income tax would make the effective reduction not much more than one-half the apparent amount.

Relieving War Debtors

The Liabilities (War-Time Adjustment) Bill, which has been introduced into the House of Lords, affords relief to those who are in serious financial difficulties owing to the war. A debtor may apply to a "liabilities adjustment officer" for advice and assistance in arriving at an equitable and reasonable scheme of arrangement with his creditors. If the debtor carries on a business, the scheme should enable the business to be preserved. If the officer—at least one is to be appointed for every county court district in which his services may be needed—cannot conclude a scheme to which the debtor and all creditors agree, he may approve a scheme to which the debtor and a majority in number and in value of the creditors assent. The scheme may provide for composition or postponement of settlement of debts, assignment or charging of the debtor's property, management or disposal of his business, and variation of the terms of a lease, mortgage, or contract. Any such scheme is to be registered in the register of deeds of arrangement. An application may be made to the Court for the adjustment of the affairs of any person who is unable to pay his debts owing to the war, or who, if he paid them in full, would be prevented from carrying on his business or earning his livelihood. The Court may thereupon issue a "protection order" staying any proceedings against the debtor and, if the Court thinks fit, appointing a receiver and manager, who may be the liabilities adjustment officer. The protection order may charge the debtor's property or vest it in a trustee who, again, may be the liabilities adjustment officer. The Court may then make a "liabilities adjustment order" which shall provide for the payment, in full or part, of proved debts in such manner as may be specified, subject to provisions respecting the maintenance of the debtor's family and protection of his business. There are special provisions as to partnerships and private companies (the Bill does not apply to public companies). The Courts (Emergency Powers) Acts, 1939 and 1940, are extended to contracts made since the beginning of the war.

Lifting of Ban on Municipal Loan Conversions

At last the Chancellor has removed the ban on the conversion of the stocks of local authorities—a long overdue step. Applications will be considered from authorities for permission to convert or repay stocks on which the interest is more than 4 per cent., and so as to allow for repayment of part of the issues in cash, the Treasury will be empowered to lend money to authorities out of the Local Loans Fund for the purpose. It was never possible to justify the ban on conversions, and the reduction in interest payments which will now ensue will be of great benefit to a number of municipalities sorely hit by the war.

Postponement of Accounts

The Government is considering the question of a possible leakage of valuable information to the enemy through the accounts, reports, and general meetings of public utilities. Pending a decision, an official request has been issued that the publication of public utility accounts and the holding of meetings should be postponed. The public utilities are complying with this request.

Concentration of Production and E.P.T.

The Board of Trade measures for the concentration of production, considered on another page of this issue, will involve numerous fusions of businesses, and it becomes important to consider the E.P.T. position arising out of such amalgamations.

Section 16 (1) of the Finance (No. 2) Act, 1939, provides that on *any* change in the persons carrying on a business, the business is to be deemed to be discontinued and a new business to have been commenced. This provision is cut down by the later sub-sections, with the result that the business resulting from an amalgamation at the present time will succeed to the *profits and losses* of the constituent businesses. This may in turn result in the selection of a different standard period, but the succession to profits and losses is not definitely harmful. One of the results of section 16 (1), which is not affected by the later sub-sections, is that where a deficiency occurs after a change, no relief can be obtained against an excess profit earned prior to the change, and *vice versa*. The businesses affected by the new policy are those which are likely to suffer a fall in profits in the future, and which would be able to obtain deficiency relief in the absence of any change. But the amalgamation of businesses will prevent relief being obtainable.

It would appear equitable that the E.P.T. provisions should be amended in this respect, since the movement towards amalgamation will be definitely retarded if a heavier burden of taxation is likely to be one of the results.

Foreign Exchange Resources

It is of the utmost importance that all foreign exchange resources under the control of persons resident in the United Kingdom should be at the disposal of the country. Attention has been called to companies formed abroad which have been utilised as a medium for holding foreign exchange resources, and the Treasury will use to the utmost the powers conferred by the Defence (Finance) Regulation (S.R. & O. 1940, No. 1989) (summarised on page 52 of the December, 1940, issue of ACCOUNTANCY) against persons directly or indirectly connected with such companies to ensure that these foreign exchange resources are placed at the disposal of H.M. Treasury. Firms are urgently requested to represent to any clients who may be concerned the need for immediate compliance with the Defence Regulation both as a matter of regularity and as a contribution to the financial needs of the country in the prosecution of the war.

SHORTER NOTE

The annual registration fee for inclusion on the general register of the Stock Exchange, which was to have been £10 10s., is to be £5 5s.

ACCOUNTANCY

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REGULATING PRODUCTION AND PRICES

If April can be termed the month of the Chancellor of the Exchequer on the home front—the Budget will be introduced no more than a fortnight hence—March has been the month of the President of the Board of Trade. It was his task to introduce two measures of far-reaching significance to the business community. Early in the month he explained the Government's proposals for the " concentration " of productive units ; about a week ago he announced its plans for more effectively controlling profit-making in industry and trade. Both measures, like most of those aiming at the wartime regulation of our economic life, intimately concern the accountant.

The reasons for concentrating in fewer units the production of a large number of " non-essential " industries, of which textiles, hosiery, pottery and footwear are the most important, are sufficiently clear. There has already been a large reduction in the output of industries such as these, largely as a result of the rationing or limitation of supplies by the Government, but there had been no attempt to ensure that the slackening of activity in any given industry was brought about by the closing down of the least efficient units, so that the remainder could work full-time. The resultant part-time working is uneconomic in any circumstances, and under war conditions doubly so.

Those firms which will continue to produce under the Board of Trade concentration policy are termed " nucleus " firms. They will receive certain advantages in the supply of raw materials and of labour ; their factories will, as far as possible, not be liable to be requisitioned ; the age of reservation of their workpeople will be lower than in non-nucleus firms. In the first instance, it is left to the industries themselves to decide upon the steps whereby the desired concentration of production costs can be achieved. The Board of Trade will intervene only if the industry itself cannot come to a satisfactory arrangement.

Thus a large number of producers—in justice they should be the least efficient producers unless there are strong reasons, such as strategic considerations, to the contrary—will be obliged to give up their businesses at least for the duration of the war. In return they will receive some form of compensation, to be arranged mutually with the other firms in the industry, and they will also have the promise of the Government that they will be reinstated as early as possible after the war. Nucleus firms will take over the production of displaced firms, but only in return for whatever compensation they arrange to pay and subject to any safeguards which displaced firms may obtain regarding the preservation of trade marks, goodwill and the like. It is particularly to be noted that compensation to the displaced firms is not to be paid by the Exchequer but by the industry itself.

It is apparent, even with the limited information on these proposals which is so far available, that matters of accountancy will continually be in the forefront. The desired degree of compensation will frequently be best achieved by an outright absorption or amalgamation, when the terms will naturally depend largely upon the accounting position of the combining firms. In numerous cases it will probably be found that the best course will be the creation of a holding company in which a number of firms, nucleus and otherwise, will hold participating shares, their interests being determined by their capital positions and profit-earning capacities prior to the new development. Or the compensation of the displaced firms may be effected by direct periodical payments from the " nucleus " firms and the amount of these payments would clearly need to be fixed in relation to the previous accounting position of the displaced firm and the profit-earning capacity of the nucleus firm after the displacement. In the determination of the method and amount of compensation, no less than in the determination of the firms which are to achieve the status of nucleus firms, accounting considerations must clearly be predominant. Nor must the effect of all this upon the taxation position of the respective firms be overlooked—very large problems in income tax and E.P.T. will arise.

The details of the other measure announced by the President of the Board of Trade, namely, the extension of price control, are not available until the Bill is published. It is known, however, that maximum prices are to be fixed for a number of commodities, excluding foodstuffs, and for certain services such as the storage of furniture. Maximum profit margins are also to be laid down for retailers, wholesalers and manufacturers in certain classes of commodities. Though there has been a large number of prosecutions under the Prices of Goods Act, many of which have resulted in convictions, changed circumstances have made the machinery much less effective than it was. The Act rests upon the determination of reasonable increases in pre-war basic prices, but the severe limitation of supplies and the buying and selling of quotas have made the fixing of these permitted increases a very difficult matter. It appears that resort is to be had under the new Bill to the fixing of profit percentages. Presumably the detailed provisions, when they are known, will show that some regulation of costs is to be retained ; the fixing of permitted percentages of profit would hardly be an improvement if costs were to be de-controlled, since we should then have all the evils of the " cost-plus-percentage-profit " contract transferred to another sphere. However that may be, the new measure will undoubtedly heap still further labours upon the accountancy profession.

The "MacKinlay Case"

The Secretary of the Joint Committee of Councils of Chartered Accountants of Scotland sends us the following statement as an important principle arising out of the "MacKinlay Case."

The decision in the case of *Commissioners of Inland Revenue* v. *Trustees of Charles MacKinlay* (Annotated Tax Cases, Volume 17, 1938, page 345) has for some time past been under the consideration of the Joint Committee of Councils of Chartered Accountants of Scotland.

The main facts in the case are as follows:—

1. The case was concerned with sur-tax on a sum of about £7,000, payable under the partnership deed of Messrs. Charles MacKinlay & Co., to the representatives of Mr. Charles MacKinlay in lieu of his share of profits from the end (March 31, 1934) of the previous accounting period to the date of his death on December 8, 1934.

2. The executors took the view that this sum was liable to assessment, and included it in a sur-tax return for 1934-35 made by them on March 4, 1935.

3. On November 19, 1935, a letter was received from the office of the Special Commissioners of Inland Revenue, stating that in the opinion of the Assessing Commissioners, the deceased was not entitled to any share of the firm's profits for the year ending April 5, 1935, and that the capital sum payable to his representatives did not form part of his total income assessable to surtax for that year.

4. An assessment was accordingly made, excluding the said sum of approximately £7,000, and the tax was paid on that basis on June 4, 1936.

5. On December 16, 1937, a letter was received from the office of the Special Commissioners of Inland Revenue, stating that it was proposed to include the said sum of approximately £7,000 in the computation, and an additional assessment was made on that basis.

6. It was contended on behalf of Charles MacKinlay's trustees that the additional assessment did not proceed upon a "discovery" and was incompetent. The Special Commissioners discharged the additional assessment, and the Inland Revenue appealed.

7. In the Court of Session on July 4, 1938, it was held that the discovery of a mistake of law was a "discovery" within the meaning of Section 125 of the Income Tax Act, 1918, and that the additional assessment *was therefore* competent.

On a remit from the Taxation Committee of the Council of the Society of Accountants in Edinburgh, the decision in the case was considered by the Joint Committee of Councils of Chartered Accountants of Scotland, and it was decided to invite the Joint Committee of Legal Societies in Scotland, the Institute of Chartered Accountants in England and Wales and the Society of Incorporated Accountants and Auditors to co-operate with the Scottish Chartered Accountants in making representations to the Board of Inland Revenue to obtain an alteration of the law on the question of "discovery," or, alternatively, to make it possible for liquidators, trustees in bankruptcy, executors and others who are required to distribute funds in their hands to obtain from the Inland Revenue a Clearance Certificate after the granting of which no further assessment should be possible except on the grounds that full disclosure of the facts had not been made.

A memorandum was submitted to the Comptroller of Inland Revenue and a deputation consisting of Professor Annan, Edinburgh, and Mr. A. S. Macharg, Glasgow, representing the Chartered Accountants of Scotland, and Mr. E. M. Wedderburn, D.K.S., and Mr. William Allan, S.S.C., representing the Joint Legal Societies, met the Comptroller at 10, Waterloo Place, Edinburgh, when the effect of the decision was fully discussed. (Although no representatives were present at this meeting from the Institute of Chartered Accountants in England and Wales or from the Society of Incorporated Accountants and Auditors, these bodies acquiesced in the representations made to the Board of Inland Revenue).

The Comptroller explained to the deputation that in the MacKinlay case the estate had not been distributed when the additional assessment was made. Normally in Scotland, if executors and other persons in a fiduciary position provide for claims of which they are aware after making diligent enquiries and allowing a reasonable interval to elapse to enable creditors to lodge claims, they are in safety to pay away the monies which they hold. There appeared therefore to be no need for any apprehension in the matter or for any change in existing practice. (In England, Section 27 of the Trustee Act, 1925, gives a specific protection, but while there was no similar statutory enactment for Scotland the position was broadly similar.) The deputation, however, expressed a preference for the explicit protection of trustees by a Clearance Certificate system to be authorised by statute.

After careful consideration of the views expressed by the Comptroller, it was agreed to record in writing that whilst the sub-committee would prefer the matter to be dealt with by a clause in a Finance Bill, they realised that this course might not be possible at the present time, and that in the meantime they would regard as a satisfactory equivalent a definite assurance from the Inland Revenue that trustees and others acting in a fiduciary capacity such as Officers of the Court, etc., after diligent enquiry and making a full disclosure of the affairs under their charge, on paying the Inland Revenue claims based thereupon, and dividing the estate, would be absolved from further liability in respect of any subsequent claims made by the Inland Revenue against the estate.

To this letter the following reply was received by the Secretary of the Joint Committee of Councils of Chartered Accountants of Scotland :—

COMMISSIONERS OF INLAND REVENUE
v.
TRUSTEES OF CHARLES MACKINLAY
Personal Liability of Trustees, Liquidators, etc.

I have referred your letter of the 28th June last to the Commissioners of Inland Revenue, who authorise me to say that they are advised that trustees and others acting in a fiduciary capacity, who after diligent enquiry and making, if necessary, a full disclosure of the affairs under their charge, pay *inter alia* the Inland Revenue claims based thereupon after allowing a reasonable time to elapse to enable any other claims against the estate to be lodged and paid and thereafter dividing the estate, are by law absolved from further personal liability in respect of subsequent claims by the Inland Revenue against the estate. In these circumstances no further legislation on the matter would seem to be necessary.

The value of the letter received from the Inland Revenue is that parties acting in a fiduciary capacity, who have complied with the conditions stated (which in the case of executors in Scotland involve allowing the customary six months to elapse), have an assurance that they are free from revenue claims.

The letter received from the Inland Revenue has been considered by the Joint Committee of Councils of Chartered Accountants of Scotland, and the feeling expressed was that the reply clarified the position, and that it was undesirable to press for further action.

This view has been acquiesced in by the various other bodies who agreed to co-operate with the Joint Committee in the representation made to the Board of Inland Revenue.

The Accountant and Economic Research

By C. CLIVE SAXTON, B.A. (Oxon.), Incorporated Accountant.

Economic analysis used to proceed on the assumption that conditions of perfect or pure competition represented the typical situation in industry. Whether this was a mere simplification of the problem to enable it to be subjected to analysis, or whether it was a generalisation from observed facts, the assumption does not accord with business experience. In recent years economic theorists have come to regard pure or perfect competition as a limiting case with pure monopoly at the other extreme. Between the two extremes lie all the patterns of actual business conduct, which may be covered by the general term, "imperfect or monopolistic competition." In the analysis of a market subject to the conditions of perfect or pure competition, we may neglect the actions of individual buyers and sellers, because no individual or group of individuals has sufficient influence upon the price or volume of output to affect either significantly. But if some individual or group of individuals has some control of, or influence upon, the price at which the product is sold because of differentiation of the product or otherwise, then the actions of those individuals are of the greatest significance.

The economist's interest is now centred mainly upon the consideration of the conduct of the individual firm. He generalises about the elements which determine the price and output of the product and how prices may be expected to vary with changes in demand and in costs. The individual firm is in equilibrium when it produces that amount of output the marginal cost of which is equivalent to the marginal revenue. In this way profits are maximised ; the situation is unique and determinate. It is clear that the assumptions are that individual firms know, with sufficient accuracy, the shape of the demand curve for their product and also the shape of their cost curve and that the aim is the maximisation of profits in the given situation in which the firm finds itself. We do not doubt that any firm would act in the way described if it had the information upon which to make the relevant decisions, but we are certain that not many firms have sufficient records or knowledge of the technique upon which to act.

We may next ask if the rule of equilibrium propounded by the economist is intended by him to be a statement of what really happens in industry, or is it a concept of what would happen if all the given conditions were fulfilled ? Many business men have, we fear, regarded the economist's analysis as if it were applicable to the world of business without any modification. When they discover that the conditions are simplified and do not coincide with their own experiences, they are inclined to think that the economist has failed in his purpose.

I believe that the economist would welcome more detailed information than he now has available, to enable him to examine his assumptions in the light of actual business conduct. At the present time, with the information available, I do not think it would be possible to say with any degree of assurance, that any particular British industry was operating under conditions of monopolistic competition or of monopolistic competition with oligopoly. In the first situation amongst other conditions there are so many competitors within the group or industry that no one firm is affected to a significant extent by a change in another firm's price or output. In the second case the group or industry is so small that the producer does not assume that his rival's price policy is independent of his own. Only a large-scale enquiry to show the actual policy of producers in a given industry can provide the answer.

We do not know whether in any industry rigidities are imported in the price-fixing process by the existence of a system of contracts for supplies of raw materials or by agreements upon wages rates. Yet information of this kind is of prime importance in

determining what the price of a product is likely to be at any particular time, and in assessing the effect of changes.

From the above I think it is patent that we stand in need of a most detailed enquiry, to discover if there are any general patterns of business conduct in some of the important British industries. If we can discover them we may be able to adjust the necessary assumptions upon which the rule of equilibrium of the firm depends. We may be able to achieve a closer approximation to the actual facts.

How is the detailed information which we should require to be obtained? It must come from those actually engaged in industry, and preferably it should be a direct contribution from the directorate or officers charged with price policy, for it is upon the higher strategy of business that we must concentrate at first. Here we may expect to have difficulty in overcoming the traditional habit of secrecy and unwillingness to disclose actions which have such a bearing on the success or otherwise of the firm. We must use every endeavour to kindle interest in the problem and try to foster a general desire to co-operate for the benefit of industry generally.

A personal approach was made to some of them about three years ago. A group of economists in Oxford decided that it would be most useful to go direct to entrepreneurs, and by personal discussion to ascertain what does in fact occur when a business man is faced with the problem of deciding his output and price policy. Some of the information obtained was published in *Oxford Economic Papers*, Nos. 2 and 3, but only the fringe of the problem has been touched, and it is doubtful if the sample was large enough to provide material for generalisations. It would take a very long time to cover much ground by these direct methods, and there are other difficulties which we shall notice below.

I would suggest that the most fruitful method of approach is through the practising accountant. The profession is closely connected with all types of industry, and by training and experience the practising member is well fitted to take an objective view of business affairs. Statistics or information collected by him would be of the highest value. I believe that if his interest can be gained and opportunities given to him, the assistance he can render to economists upon the subject of price-fixing would be invaluable.

He can assist in two ways. First by educating his clients in the need for economic research of this kind, and by encouraging them to take part in it and arranging the information they have in a way suitable to the purpose. Secondly, the accountant should become familiar with economic concepts and explain them in business terms to industrialists. There is great need for a clear statement of business and accountancy concepts so that they can be understood and followed by the economist. I refer particularly to such terms as " prime cost " and " on-cost." The economist, for the purposes of analysis, usually divides all costs into " prime costs " and " fixed costs." " Prime cost " includes for him not only direct labour and material, but also indirect labour and material and expenses which vary, although not necessarily directly, with variations in output. It is that part of cost which is avoidable if no output is produced. The cost accountant usually regards prime cost as consisting of such materials and labour as can be directly imputed to the job or the product. He does not include indirect material or other expenses therein. Such costs are allocated to the product on some arbitrary basis under the caption of " works on-cost." In any discussion with entrepreneurs as to what they would do in a given set of circumstances, the economist might ask a question about prime cost and have his own concept in mind, but the answer must be valueless if the person answering is thinking of a very different concept.

There is still greater confusion if the discussion turns upon circumstances in which the entrepreneur would reduce his price below " cost." This " cost of production " for the economist usually includes the minimum profit which the entrepreneur requires to induce him to remain in business, and all economic analysis is based on the assumption that such a margin of profit is always included in the " cost " of a product. All accountants realise that in ordinary business discussions and for all purposes of business records, when the term " cost " without qualification is mentioned, it refers to a concept which does not include any profit.

If the accountant's client is unwilling to take part we cannot make much progress. The contract of employment of the professional accountant does not allow of disclosure of information of this kind without the consent of the client, but many members are engaged not only as auditors, but also as consultants upon many matters of business not germane to the auditing contract. In these instances the opening of a discussion on general business policy may be easier. Such discussions may well bring the practising accountant into closer relationship with his client, as adviser upon price and output policy. An improvement in the methods adopted by entrepreneurs in making these crucial decisions may result.

In any event the accountant cannot move faster in this direction than his client. It may be some time before any far-reaching scheme of research can be propounded with a fair prospect of general acceptance. In individual cases the accountant may be able to prepare the ground for a large-scale enquiry by fostering a general interest in the problem. A good deal can be done by those accountants who have several clients engaged in a particular industry. If the assent of a few of them could be gained, the information could be extracted from their records, upon which some generalisations about that industry could be tentatively formulated. The accountant would be able to judge the value of such information from the experience already gained in that industry, and would be able to compare the actions of the different firms and observe their effects. A good general picture of the industry might well result.

It would be very useful if business men were encouraged to prepare records of the effect on sales of changes in selling prices, and from time to time to make estimates of the demand for their product at given prices. From such information economists

might be able to make rough tests of the elasticity of demand for certain products.

I do not think the difficulties mentioned above are insuperable. Many of the larger business firms are showing a keen interest in the price-fixing problem, and welcome the efforts of economists to get nearer the actual facts. Some business men are even prepared to submit their own detailed records for examination, and some have set up departments for sales promotion and research. Business men are not nearly so secretive as they were half-a-century ago, when economic organisation was individualistic. The directorate and staffs take a greater interest in the progress of economic thought, and given suitable opportunities are likely to encourage any movement which may be of practical interest to the business community. If the practising accountant is also able to take a direct part in research, his influence upon business men is certain to produce, in time, the information economists require.

It is obvious that at the termination of the war some of the problems which have faced business men in the past will arise in a more or less acute form. There will be discussions of measures to avoid or to mitigate the effects of the depression which in certain circumstances may follow the cessation of hostilities. If any remedies are to be propounded by economists, business interests would be well advised to prepare and provide economists with adequate information upon which recommendations can be made.

An Economic Research Group, such as that which was in being at Oxford before the war, might usefully make close contact with the Research Group of the Society of Incorporated Accountants, or with the Accounting Research Association. The problems might be discussed at joint meetings and turned into a suitable form for submission by questionnaire to business men. This preparatory work is essential, and will require much careful thought. It would be useless to present any problem couched in economic terms before the business man ; but if it is submitted in ordinary business terms as generally understood, there is some possibility of gaining interest. This may well prove to be one of the most difficult sections of the work.

I think the approach to industry, if effected through the accountancy profession, promises a greater hope of success than a direct approach from the economist to industrialists. If the accountant is able to assist his client in completing questionnaires, the answers will be more reliable, and therefore of greater value.

I hope the outline given above will stimulate thought on the subject. If it is agreed that current economic theory should be brought closer to the facts, the methods of achieving the aim can surely be formulated by a joint effort on the part of economists and accountants. Both the economist and the accountant are able to take a detached view of events, and the accountant has the added advantage, in work of this kind, of close contact with the every-day life of industry.

If the purpose of economic theory is to give a generalised account of the conduct of individuals and societies in their relations with material things, then it fails if evidence is not taken periodically of changes in economic organisation which affect the assumptions upon which the reasoning is based. In any attempt to widen our knowledge of economic actions the assistance of the practising accountant is required, and I hope it will be forthcoming.

The Redemption of Land Tax

[CONTRIBUTED]

The present may be a favourable time to redeem land tax in cases where premises have been demolished or badly damaged by enemy action. As the valuation on the land takes into account its user it is obvious that at such a time the annual value must be at its lowest and the right to seek a reduction can be exercised to advantage. Those who, whether as land-tax payers or as advisers of others, are interested in the question, should give consideration now to the various factors involved. While it is well known that any person who has an interest in land on which land tax is payable, except a tenant at a rack rent or a tenant of Crown lands, may extinguish his liability by the payment of a lump sum, it is not always fully appreciated that there are times when that action is more advantageous than others.

The right to commute one's liability extends beyond simple ownership. Where there are two or more joint owners any one or more of them may redeem his or their proportion of the land tax liability, thus freeing that portion from further annual payments of land tax for ever, even if subsequently the land be divided or sold. Here again, consideration needs to be given to the question : at what time is redemption to the advantage of the person liable ?

Two fundamental factors should be borne in mind. These are :

1. That persons whose total incomes do not exceed £160 per annum may secure exemption from liability while their incomes remain within that limit and those whose total incomes do not exceed £400 a year are only liable for one-half of the tax otherwise assessable on them ; and
2. That the amount required to extinguish one's liability is a sum equal to twenty-five times the amount of tax payable for one year.

The action of redeeming is equal to the making of an investment at the rate of 4 per cent. per annum. Redemption can be effected without finding the whole of the capital sum at once, but it is then necessary to pay interest at 4 per cent. per annum on the balance for the time being outstanding.

The fact that land tax may not be levied at a lower figure than one penny in the pound, nor at a higher rate than one shilling, should also be remembered when considering the question. A tax of one penny may be yielding more than the quota, in which circumstance the surplus will have been applied towards redemption of the capital quota of the parish and the land-tax payer, without making any payment beyond the minimum impost of one penny in the pound, will have been automatically, though slowly, redeeming the tax. Where the tax is at the rate of one shilling, it may not be producing enough, though the deficit is not increasing the quota. The effect of these matters will be seen presently.

The following are circumstances in which early action is desirable :

(*a*) If it is thought that the next re-valuation may result in an increased assessment on the land concerned, it is obviously advantageous to effect redemption on the lower figure and thus save a capital sum equivalent to twenty-five times the amount of the land tax on the increase.

(*b*) If on a re-valuation the *total* assessable value of the district falls by a greater percentage than the value on the particular land in question, there will probably be an increased poundage and the redemption cost would be higher. Thus previous redemption would have been advantageous.

(*c*) The official requirement in the immediate future may be increased, in which case redemption at the present lower charge is indicated.

(*d*) Where there is a certainty, or even a probability, of development of the land (e.g. re-building, extending, etc.) it is well to seek to redeem at the point when the assessable value is at its lowest. For instance, if there is to be a demolition of existing structures a reduced assessment should be immediately obtained and adopted for the purpose of computing the redemption cost. If this is postponed until the new erections are complete, tax on an increased value would have to be paid. By the exercise of foresight and by speedy action redemption may thus be effected at a mere fraction of the figure that would otherwise be necessary.

(*e*) In cases where the tax is at the rate of one shilling in the pound, even this maximum figure may be insufficient and thus increases in total assessable value may not lead to an effective reduction in the one shilling poundage. Delay in redemption in such cases would be disadvantageous.

(*f*) In parishes where one person holds all the land and the poundage rate is the maximum leviable, the *effective* rate should be ascertained. The shilling rate may be insufficient and any improvements effected would merely increase the assessments and the land tax payable, without reducing the poundage.

It is ordinarily advantageous to defer redemption in the following circumstances, which for the most part are the converse of those just considered :

(*a*) If it is thought probable that the next re-valuation will give a lower assessment on the land, it would seem better to wait until the new value has become operative, since by doing so redemption can be effected by a capital sum smaller than would otherwise be the case.

(*b*) As increases in valuation ordinarily occasion lowered poundages by reason of the greater yield of land tax per penny of poundage levied, the problem in (*a*) above should be examined in a wider aspect. Even though the assessment may be raised, increases in the assessable values of other properties may be greater than the increase on one's own land, in which case the next poundage will be lower and redemption cost will be correspondingly less.

(*c*) It may be that in the near future the official requirement may be less than hitherto. And so, other things being equal, delay in effecting redemption will be to one's financial advantage.

(*d*) If the tax is at the rate of one penny in the pound it should be ascertained whether that figure is yielding more than the quota. If it is, the excess will be used in redeeming the capital quota of the parish and there will be automatic reduction and ultimate extinction of the liability. (Alternatively, if it is desired to effect redemption, the effective rate for this purpose may be less than the figure computed on the basis of one penny in the pound.)

(*e*) Where some owners of land are making big improvements, it is ordinarily advantageous not to redeem one's own liability until the improvements and extensions of the other landowners are complete. The probability is that the poundage levied will fall and redemption can later be effected at less cost.

It will readily be seen that by skilful handling, much money can be saved in the redemption of land tax.

DESTRUCTION OF BEARER WARRANTS

[CONTRIBUTED]

A matter of some importance at present is the risk of loss or destruction by enemy action of share warrants to bearer. It is desirable that holders of bearer warrants should take the precautionary measure of having them converted into registered form so that their names appear on the register of members or stockholders. As bearer bonds are transferable by mere delivery, their replacement in the event of loss is doubtful. The Bank of England provides that if a bond is lost or destroyed, providing sufficient particulars of the missing bond are given to enable it to be identified in the books of the Bank, a "caution" would be recorded. The Bank would require a statement by the owner of the circumstances attending the alleged loss. After a period of a year from notification, it would consider raising an equivalent amount of stock in the Bank's books against the applicant's indemnity, which must be joined in by a London clearing banker or other person approved by the Bank. If the issue of a bearer bond, in replacement of a missing bond, is authorised, the cost of preparing the new bond would be payable by the applicant.

The directors of one leading British company, which has a large part of its share capital in bearer form, will not in any circumstances whatever issue a duplicate bearer warrant in place of one which has been *lost*. Of three other companies to which the enquiry was addressed, one was emphatic that in no circumstances would stock warrants to bearer be issued to replace stock warrants which have been *lost*. The directors of the remaining two companies had power to issue duplicates in the case of loss, but only after such loss be established to the entire satisfaction of the directors. All four companies can issue duplicates on proof of destruction providing a full indemnity is given by the owner of the destroyed bearer warrants, jointly with an approved bank or guarantee company, in a form to be approved by the directors.

In the case of a lost or destroyed *endorsed stock certificate* considerable trouble and expense may be incurred in effecting replacement. This cannot be explained better than by quoting from a letter received from the transfer agents of a Canadian company on the advice of the company's solicitors, relative to a lost certificate for 10 common shares of no par value :—

"We are informed that before a duplicate certificate can be obtained, they will require to receive :—

(*a*) Satisfactory evidence, preferably by affidavit of the registered holder, stating that the shares represented by the certificate in question were sold and transferred by him and giving the name of the transferee and stating also whether the certificate was endorsed in blank or the name of the transferee inserted.

(*b*) Satisfactory evidence from the transferee as to the loss of the certificate and a request from him that a duplicate certificate be issued.

(*c*) Satisfactory indemnity bond for such amount as the directors may consider necessary.

With regard to (*c*), the company have decided that the bond must be for the sum of 1,000 dollars in perpetuity until the missing certificate is found and surrendered to us, when, of course, the bond would be returned for cancellation."

The requirements of the Canadian company will be appreciated when the fact is borne in mind that endorsed certificates, although in the registered category, are, in effect, bearer securities.

If bearer warrants were destroyed on a large scale by enemy action, it may be that Government legislation would be necessary to deal with the matter.

TAXATION E.P.T.—"New Subsidiaries"

It is apparent that the provisions regarding "new subsidiaries," are not always properly understood. The term is an unfortunate one, in that a company may have been a subsidiary in the ordinary sense right from its formation, but since the principal company did not own (directly or indirectly) nine-tenths of its ordinary share capital, it was not a subsidiary for E.P.T. purposes. The allotment of further shares in such a subsidiary company, the acquisition of a holding in some other company holding shares in it, or a change in the participating rights of shares not hitherto part of its "ordinary share capital," may suddenly turn it into a subsidiary for E.P.T. purposes. In such circumstances, the company is a "new subsidiary" as it was not a subsidiary, within the meaning of the E.P.T. Rules, at any time during the standard period of the group.

Again, if the acquisition of shares in the subsidiary brought the ordinary share capital owned directly or indirectly up to or above the nine-tenths in 1936, the company would be a new subsidiary if the principal company chose 1935 as the standard period, but would not be a new subsidiary if the standard period selected were 1936 or 1935 and 1937 or 1936 and 1937.

In such circumstances, as a new subsidiary brings into the group its own separate standard, which is not necessarily that of the standard period of the group, care must be taken in the selection of the standard period to compute the figures for every possible period.

There is, of course, the further point that, if the subsidiary was a member of some other group in the standard period selected by the group of which it is now a member, it is not to be regarded as a new subsidiary unless the Commissioners are satisfied that there is no substantial degree of connection or continuity between the two groups.

Cases may arise where a company was a subsidiary within the E.P.T. Rules in the standard period of the group and is so in the chargeable accounting period, but, for some period in between, owing to changes in share holdings, it was not a subsidiary. In that case, it is not a "new subsidiary," having been a subsidiary in the standard period of the group.

Illustration.

A., Ltd. and B., Ltd. are old established companies. In 1936, A., Ltd., acquired shares in B., Ltd., which made the latter a subsidiary for E.P.T. purposes. The profits, adjusted for E.P.T. purposes, were :

Calendar year	1935	1936	1937
A., Ltd. ...	£8,000	£6,000	£7,500
B., Ltd. ...	£5,000	£7,000	£4,000

If A., Ltd., chose 1936 as the standard period, B., Ltd., would not be a new subsidiary and the standard profits would be £13,000. It would be better, however, for A., Ltd. to choose 1935 as the standard period, as the standard would then be :

A., Ltd., 1935	£8,000
B., Ltd. as a new subsidiary choosing 1936	£7,000
	£15,000

The effect of the respective courses available on capital employed, of course, must also be taken into account. Moreover, it must not be overlooked that, in the illustration given above, if 1936 were chosen, the standard profits might not be the sum of the separate adjusted profits, owing to inter-company transactions, investments, etc. The computations may take a long time to complete where several companies are involved, but in view of the fact that, with E.P.T. at 100 per cent., a difference of £1 in the standard profits means £1 per annum in terms of tax, the time spent should be profitable.

If a new subsidiary had incurred losses in all possible years which could be selected as the standard period, it is not permissible to ignore the loss or to elect to take the minimum standard. Subject to any possible claim for a modified substituted standard, unless there is a claim for a minimum standard for the group, it will be necessary to select the period with the most favourable loss (having regard to capital variations) as the subsidiary's standard period, as the loss in its standard period will be deducted from the group standard profits.

In such a case, however, an application may be made by the principal company under Section 27, Finance Act, 1940, for a substituted standard for the new subsidiary. If the new subsidiary, before it became a member of the group, had obtained a direction for a substituted standard, the direction ceases to have effect unless, on the application of the principal company, the Board of Referees confirms it. The Board may modify or refuse confirmation of the direction.

A new subsidiary which commenced business after July 1, 1936, will, of course, have a standard based on the statutory percentage of the average capital employed in the chargeable accounting period.

Taxation Notes

Non-Resident British Subjects

Not a few clients will have been "caught" abroad and be unable or unwilling to return to this country under present circumstances. It is necessary to remember that a person who is a British subject or who comes within the other categories detailed in Section 24, Finance Act, 1920, and is not resident in the United Kingdom, is entitled to proportionate allowances. It is necessary to compute the tax liability which would arise if the whole income were liable here, then find the proportionate amount of tax on his statutory total income liable here. Any tax paid in excess of the latter amount (which is the income for sur-tax purposes) will be repaid on a claim being made on the appropriate form and duly sworn before a Consul or similar official.

Illustration. 1940-41.

			£	£
Income liable to United Kingdom tax—				
Taxed at source			800	
Not taxed			200	
			1,000	
Less Bank Interest	£20			
Annuity payable in United Kingdom	30			
			50	
				950
Income not liable to United Kingdom tax—				
Foreign earned income			600	
Foreign dividends, etc.			100	
				700
				1,650

	Brought forward		£1,650
Allowances: Earned income ...	100		
Personal (married) ...	170		
Children...	100		
			370
			£1,280
		£ s.	d.
£165 at 5s.		41 5	0
£1,115 at 8s. 6d.		473 17	6
		515 2	6
Life Assurance relief, £120 at 3s. 6d. ...		21 0	0
Liability if whole income were liable		£494 2	6
Reduced liability $\frac{950}{1,650}$ × £494 2s. 6d. =		284 9	11
Tax paid by deduction—			
Taxed income	£800		
Less Annuity	30		
	770		
	£770 at 8s. 6d.	327 5	0
Tax Repayable		£42 15	1
Alternative working:			
Allowances—£370 at 8s. 6d.		157 5	0
£165 at 3s. 6d.		28 17	6
£120 at 3s. 6d.		21 0	0
		£207 2	6
$\frac{950}{1,650}$ × £207 2s. 6d.		119 5	1
Less Untaxed United Kingdom income	£200		
Less Bank Interest	20		
	£180 at 8s. 6d.	76 10	0
Tax Repayable		£42 15	1

Management Expenses

Many claims under Section 33 of the Income Tax Act, 1918, will be made in coming weeks. A claim may be made by :

1. An assurance company carrying on life assurance business ;
2. Any company whose business consists mainly in the making of investments, and the principal part of whose income is derived therefrom (including companies mainly concerned with holding real property) ; and
3. Any savings bank.

The company or bank must prove to the satisfaction of the Special Commissioners that it has been charged to tax by deduction or otherwise and has not been charged in respect of its profits in accordance with the Rules of Case 1 of Schedule D. It can then claim repayment of so much of any tax paid by it as is equal to tax on its management expenses for the year. Management expenses include, in the case of assurance companies, commissions on sums assured or on life premiums, and in all cases brokerages, stamp duties and fees for the purchase and sale of stocks and shares where the transactions are merely changes of investments as distinct from investment of new capital or of undistributed profits. Excess Profits Tax and National Defence Contribution payable also rank as management expenses.

There are certain provisions affecting assurance companies, of no general interest. In this note we deal with investment and finance companies.

The claim must be made by notice in writing to the Inspector of Taxes within one year after the end of the year of assessment. Strictly, the claim should relate to the income and expenses of the year of assessment, that is, the year to April 5, but the Revenue raise no objection to claims made by reference to the accounting year, provided the same method is applied year by year.

It is important to note that, if the company is carrying on a trade assessable under Case 1, notwithstanding that no assessment is made, the relief given must not reduce the tax paid by the company below the amount it would have paid had all its profits been charged under that Case. If the repayment is restricted as a result, the balance of management expenses on which repayment is not made may be carried forward and treated as if the expenses had been disbursed in the next year of assessment. In so far as relief cannot then be given, the balance can be carried forward to the next following year, and so on, up to a maximum of six years from the year of assessment in which the expenses were incurred. As an investment company cannot be assessed under Case 1, the restriction does not apply (*Rosyth Building and Estates Co. v. Rogers*, 1921, S.C. 372 ; *Simpson v. Grange Trust*, 1935, A.C. 422), and if in any year the management expenses exceed the income, there is no relief for the excess.

No relief can be obtained under Section 33 in respect of expenses for which relief may be claimed or allowed under Rules 7 and 8 of No. V of Schedule A, even if no such relief has been claimed (*London and Northern Estate Co. v. Harris* (1937), 3 A.E.R. 252). Careful scrutiny is therefore necessary where the company owns property, particularly in apportioning salaries and directors' remuneration.

Similar relief is given to companies whose income is mainly or wholly derived from patent royalties or mineral royalties (see Section 26, Finance Act, 1922), but no relief is given to companies holding land for building purposes. Bank interest is normally included in the management expenses, and not made the subject of a separate claim under Section 36 of the Income Tax Act, 1918.

The following points are important :

1. In the case of income assessable under Cases III, IV and V of Schedule D, the actual income of the year must be eliminated and the assessments substituted ;
2. The net annual value of premises owned and used for the purposes of the business may be included in the management expenses, but the assessment must then be included in the income ;
3. If property is let, the net annual value may be claimed as an expense provided rents receivable are included as income ;
4. Outlay on repairs, etc., of property owned and occupied by the company may be included in the expenses, provided no maintenance claim is made thereon under Schedule A ;
5. Miscellaneous items of income, such as transfer fees, which are not assessed, are deducted from the management expenses ;
6. Income not taxed at source is assessed as usual, but the tax payable is usually set off against the tax repayable on the claim ;
7. If the company has had Dominion Income Tax relief as part of its income, management expenses are set off first against income taxed at the standard rate, so as to give the maximum repayment.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law.

Schedule E—Director of United Kingdom Company—Director ordinarily resident abroad—No duties performed in the United Kingdom—Whether fees assessable—Schedule E, Rule 1, 18 (2).

The facts of *McMillan* v. *Guest* (Court of Appeal, November 25, 1940, T.R. 505) were set out in our issue of December, 1940, and the view was there expressed that the decision of Lawrence, J., against the Crown had only made a confused legal position worse. In the Court of Appeal, however, it was reversed, the Crown not being called upon, although, as usual in the circumstances, leave to appeal was granted. The unanimous decision of the Court was given by the Master of the Rolls in an acute and valuable analysis, full of striking dicta. *Inter alia*, he said that he was prepared to hold, and to hold without hesitation, that the director of a company incorporated under the Companies Acts is the holder of a public office. The office of director was different from the employment of an agent or even that of a Crown servant. In the circumstances of the present case every right and every duty had to be exercised in this country and nowhere else. Such a director could ask the assistance of the Courts to enable him to exercise his rights. An employee had no such specific rights, specifically safeguarded by the Courts. His remedy was one in damages. If the director in question had not an office in the United Kingdom, where had he ? In such a case the applicability of Schedule E seemed to him to be beyond question. Referring to certain observations by Rowlatt, J., in *Proctor* v. *Ryall* (1928, 14 T.C. 204), he said that if he intended there to express the general proposition that a director of a company, whose rights and duties, so far as this country is concerned, remain, so to speak, dormant whilst he does something special abroad, is to be taken as holding an office outside the United Kingdom on the ground that the only functions he performs are those special functions abroad, he was unable to agree.

Schedule D—Directors' remuneration—Sums paid to son and daughter—Income Tax Act, 1918, *Rule* 3 (*a*) *of Rules to Cases I and III.*

In *Copeman* v. *Wm. Flood & Sons, Ltd.* (K.B.D., October 24, 1940, T.R. 491), the company's shares were held by members of the Flood family, and in the year in question there was paid to each of the directors £2,600. One of these was a daughter under 18 ; and only £70 had been drawn by her. Another was a son under 24. As a result, the accounts showed a loss of £300. The Revenue had contended that the fees in question were not wholly and exclusively laid out or expended for the purposes of the trade, whilst for the company it was argued that both directors had equal responsibilities and that a private company could pay what salaries it liked. The General Commissioners accepted this latter argument ; but Lawrence, J., remitted the case to them to find whether Rule 3 (*a*) was complied with.

He said that, whilst it was true that the Commissioners could not interfere with the prerogative of the company to pay what it chose, they had to see whether in accounts for income tax the sums deducted were permitted by the Income Tax Acts ; and, whilst sums might be paid to directors as remuneration for services by a resolution of the company, " it did not necessarily follow in the least " that these complied with the Rule.

The decision is of importance ; and Commissioners must now deal with these payments by family concerns entirely as questions of fact, the respective legal right to pay and to receive being irrelevant to the issue. But this does not conclude the matter. As the amounts are legally due and paid, there would seem to be no escape from liability under Schedule E upon the voted amounts in full, despite the fact that only fractions of them are found to comply with Rule 3 (*a*) and so to be admissible in computing the payor's liability under Schedule D.

Estate duty—Patient in mental hospital over 50 *years—Death there—Sale of real property abroad by receiver under Sections* 110 *and* 120 *of the Lunacy Act,* 1890—*Proceeds invested in War Loan—Whether War Loan situated out of the United Kingdom and exempt from estate duty under Section* 2 (2) *of the Finance Act,* 1894—*Whether deceased was ordinarily resident in the United Kingdom and the War Loan, therefore, not exempt under Section* 47 *of the Finance* (*No.* 2) *Act,* 1915.

Mackenzie v. *Attorney-General* (Chancery Division, November 6 and 7, 1940, T.R. 495) is a case of peculiar interest. The deceased came to the United Kingdom with her mother in 1885, and was in the same year admitted to a mental hospital as a certified patient. Removed to another mental hospital in 1893, she died there in 1939. She owned a half-share in real estate in New South Wales which, in 1925, was sold under an order of the Court, and pursuant to the order, the proceeds were remitted to the United Kingdom and invested in War Stock 5 per cent., 1929-47.

By Section 123 of the Lunacy Act, 1890, the lunatic, his heirs, executors, etc., were to have the same interest in any moneys arising from any sale as they would have had if no sale had been made, and the surplus moneys were to be of the same nature as the property sold.

In the immediately preceding case, Morton, J., had held that the deceased was domiciled in Victoria, Australia, and that the devolution of the War Stock was the same as if the land in New South Wales had not been sold. The first question which he now had to determine was whether the War Stock was exempt as property situate out of the United Kingdom within Section 2 (2) of the Finance Act, 1894, and he said he was unable to find that Section 123 of the Lunacy Act, 1890, gave the property any situation other than the factual one.

The second point which he had to decide was whether deceased was " ordinarily resident " in the United Kingdom within Section 57 of the Finance (No. 2) Act, 1915, a section which exempted the capital and interest of the War Stock from taxation where in the beneficial ownership of persons neither domiciled nor ordinarily resident in the United Kingdom.

The main argument for the plaintiff was that deceased was not ordinarily resident when she was certified, that during the whole of the rest of her life she was under restraint, and that by the dictum in the *Lysaght* case (1928, A.C. 234, 13 T.C. 511), by Lord Sumner, ordinary residence depended upon a voluntary act on the part of the person residing. As against this, Morton, J., pointed out a dictum to the contrary by Lord Buckmaster on page 248 of the same case. In an interesting judgment he said one thing at least was clear. If deceased was not ordinarily resident here, she was not ordinarily resident anywhere else. He declined to consider the hypothetical cases put forward of prisoners of war or imprisoned criminals.

Sur-tax—Settlement payments—Effect of revocation—Finance Act, 1922, Section 20—Finance Act, 1938, Section 38 (1), Third Schedule, Part II.

The cases of *C.I.R.* v. *Payne* and *C.I.R.* v. *Gunner* were noted in our issue of December, 1940. In the Court of Appeal (December 2, 1940, T.R. 521) the decision by Lawrence, J., in favour of the Crown was unanimously affirmed, the Master of the Rolls giving the judgment of the Court in terms both caustic and illuminating. He said that the first point to be decided was whether what had been done was a " settlement " within the definition in Section 41 (4) of the 1938 Act as an " arrangement." The position was one of a " definite scheme, the essential heads of which could have been put down on half a sheet of notepaper. . . . Now, if a deliberate scheme, perfectly clear-cut, of that description is not an ' arrangement ' within the definition clause, I have difficulty in seeing what useful purpose was achieved . . . in putting that word into the definition at all." As to the argument on the meaning of the word " power " in the Section, he agreed with Lawrence, J., as to its extended meaning. The voting rights which played their part in the scheme were, in their context, correctly described as a " power." Upon the other legal points which arose he also agreed with Lawrence, J.; and " those who think it right to use these devices " — to quote his own words—must now take note of the fact that the Court of Appeal is, to-day, definitely unsympathetic.

Sur-tax—Deduction—Annual payment of fraction of income as computed for income tax purposes—Sum apportioned in respect of interest in a company—Whether part of income—Finance Act, 1922, Section 21, etc.

In *C.I.R.* v. *Payton* (K.B.D., June 14, C.A., November 29, 1940, T.R. 513) the respondent covenanted to pay to a trustee during his life an annual sum equal to a quarter of his income, and " income " was declared to be " the income of the settler as computed for the purposes of the Income Tax Acts . . . and after deducting therefrom all annual sums, annuities or interest, excluding the sum payable under this deed, as are allowed as deductions in computing the total income for the purposes of the said Acts." The issue was whether the respondent, in computing his total income for sur-tax, was entitled to deduct one quarter of a sum apportioned to him under Section 21 of the Finance Act, 1922. The Special Commissioners had decided in his favour.

The Crown's contention was that the words abovementioned were inapt to describe such income; and reliance was also placed upon *Leitch* v. *Emmott* (1929, 2 K.B. 236, 14 T.C. 633), where the Court of Appeal set limitations upon " deemed " in Rule 16 of the General Rules, Income Tax Act, 1918. Lawrence, J. had decided for the Crown in a very brief judgment, but this was reversed unanimously in the Court of Appeal. The general tenor of the judgments was to the effect that income for sur-tax purposes is the same as income for the purpose of the Income Tax Acts, although " apportioned income " may not be available for purposes of relief. The Crown obtained leave to go to the Lords.

It will possibly be remembered that in *Earl of Normanton* v. *C.I.R.* (K.B.D., May 9, 1939, noted in our December, 1939, issue) it was held that the terms " total income from all sources " and " total income " are insufficient to include income apportioned under Section 21.

Income Tax—Payments made by life assurance society—Annuity contract guaranteeing repayment of capital invested—Whether payments capital or income.

Sothern-Smith v. *Clancy* (C.A., December 13, 1940, T.R. 529) was dealt with in our November, 1940, issue. In the Court of Appeal the decision of Lawrence, J., was unanimously reversed and that of the Special Commissioners restored. Whilst it is possible to distinguish the present case from *Perrin* v. *Dickson* (1930, 1 K.B. 107, 14 T.C. 608), and the Court did so, its importance lies in the fact that all three judges cast doubts upon the soundness of the earlier decision although, there, all the judges concerned were in agreement.

The present position is, that, except where the facts are identical with one or other of the two cases, it will be a matter of great difficulty to know which of them is applicable. The law as to income tax liability in respect of deferred terminable annuities was uncertain even prior to the present case; and it is to be hoped that the House of Lords will be able to lay down definite principles for the benefit of the many who are interested. *Perrin* v. *Dickson* is unquestionably not a satisfactory case from the legal standpoint. Amongst other things, it is hard to reconcile the conclusion there reached with the *dicta* in other cases both before and since. Nevertheless, its effect was in accordance with the layman's idea of justice.

E.P.T.—ADMISSION OF PARTNERS

A result of Section 16 (1) of the Finance (No. 2) Act, 1939, not affected by the later subsections, is that the date of the admission of a new partner (or any other change in the persons carrying on the business) marks the end of one chargeable accounting period and the commencement of another. Accordingly, where the admission occurs in the latter half of the normal accounting period without accounts being made up, the new partner will be eligible as a working proprietor, because he will have been engaged in the business for *the whole* of the chargeable accounting period which commenced on his admission. This is to be contrasted with the case of the admission of a director (otherwise qualifying as working proprietor) during the second half of a chargeable accounting period.

REGISTRATION OF MEN AGED 41 AND 42

Under the Registration for Employment Order, men born after December 31, 1897, and before April 6, 1900, are required to register on April 5. Exemption from registration is granted only to those in full-time civil defence or direct Government employment, or in certain industrial occupations. Accountants and audit assistants whose birth dates are within the period specified must register, though it is understood that they are covered by the Schedule of Reserved Occupations.

The procedure will be the same as in registration for military service, and a member of the Society should describe himself as an Incorporated Accountant, adding the description of his present position. Those not holding a professional qualification who are in the service of practising accountants should register as Audit Assistants (not Senior Audit Clerks).

Mr. C. Clive Saxton, B.A., A.S.A.A., the writer of the article on " Economic Research and the Accountant," appearing on another page of this issue, is undertaking research on price policy at Magdalen College, Oxford. He is anxious to obtain information from industrialists on questions of price policy and would welcome the co-operation of other Incorporated Accountants. He has prepared a form of questionnaire, copies of which he will supply on hearing from members.

LAW — Legal Notes

COMPANY LAW

Companies Act, 1929, Section 370 (i)—Action against company—Order for money payment—Proper service necessary.

In *Benabo* v. *William Jay & Partners, Ltd.* (1940, W.N. 330), Morton, J., had to decide a point of practice arising out of an application for leave to issue writs of attachment against company directors. In February, 1940, the plaintiff commenced an action against the defendant company for an account of receipts and payments by the company as the plaintiff's agents. In July, 1940, the company was ordered within 14 days to lodge in a sum of £118 11s. 8d. shown by the account to be in its hands. On August 19 copies of the order were served on the two directors at the company's registered office. Endorsed on each copy was a memorandum warning the directors that if they failed to comply within the prescribed time limit of four days after service, they would be liable for process of execution. On the directors' failure to comply, the plaintiff served notice of motion for leave to issue writs of attachment against the directors " for the contempt of the defendant company in not lodging in court the sum of £118 11s. 8d., in the hands of the defendant company, pursuant to the order." The directors swore an affidavit as to their means and the circumstances of non-payment. They gave no information of the defendant company's resources except that it held a lease of its business premises.

By Order XLII, Rule 31, of the Supreme Court, a judgment or order against a corporation wilfully disobeyed may, by leave of the Court, be enforced by sequestration against the corporate property or by attachment against the directors or other officers of the company, or by writ of sequestration against their property. It was argued that the company was never served with the order. This was rejected by Morton, J., who found that the copies of the order were properly served in accordance with Section 370 (i) of the Companies Act, which allows documents to be served on a company by leaving them at its registered office. The endorsement, however, did not comply with Order XLI, Rule 5, under which the company should have been warned of its liability to process of execution. The motion was therefore dismissed.

EMERGENCY LEGISLATION

Emergency Powers—Contract before commencement of Act.

In *Smallman* v. *Embassy Cinema, Ltd.* (1941, 1 All E.R. 241), the Court of Appeal determined a question under the Courts (Emergency Powers) Act, 1939. In February, 1939, the plaintiff entered into a building agreement with C and M. They were to erect a cinema, and when the building was completed, the plaintiff (the lessor) was to grant and the tenants should take a lease of the premises and building for a stated term at a stated rent. The tenants (C and M) might, by notice in writing to the lessor before the grant of the lease, require the lessor to grant the lease to the tenants' nominee, including a limited company, and the lessor should act accordingly.

The contract was a pre-war contract, and failing the provision of a nominee, C and M would have been compelled to accept the lease themselves. On September 22, 1939, the defendants were incorporated under the Companies Act, 1939, and five days later the lease was granted to the defendants in pursuance of a nomination. Until the lease was executed the defendants were under no contractual obligation. The question arose whether the debt was under the agreement for the lease or under the lease when granted. The Court of Appeal held that it was irrelevant that the lease originated in the building agreement. The defendants were under no pre-war obligation, but assumed obligations after the beginning of the war. Therefore the company was not entitled to relief under the Courts (Emergency Powers) Act.

Right to stay of execution on obtaining leave to appeal against leave to proceed.

In general there is no stay of execution merely because an appeal is lodged, though usually such a stay is granted by the Court upon terms (usually a payment into Court is required). But in a case under the Courts (Emergency Powers) Act where the plaintiff obtains leave to proceed to execution, and the defendant obtains leave to appeal against that order, then unless the debtor obtains a stay of execution, the substatum of the appeal is irretrievably destroyed because the judgment will be satisfied before the appeal is heard. In *Metropolitan Property Trust, Ltd.* v. *Slaters, Ltd.* (1941, 1 All E.R. 310), the debtors appealed from orders by Wrottesley, J. In the action the claim was for rent due for premises occupied by the defendants and used for their catering business, which had been adversely affected by the war. But as they were owners of real property, there was ample security for debts not immediately paid. After Wrottesley, J., had given the plaintiffs leave to proceed, and had given the defendants leave to appeal, without an order as to staying proceedings, the defendants paid the judgment debt before the appeal was heard. The Master of the Rolls said that though that payment destroyed the whole basis of the appeal, he would say generally that in the case of a judgment for money under the Act, where leave to appeal was given to the debtor, then it should follow as of course and should be expressly stated in the order, that there should be a stay of execution pending the appeal.

EXECUTORSHIP LAW AND TRUSTS

Wills—Lapse—Beneficiary dying before 1926, testatrix dying after 1925—Interest saved from lapse—Wills Act, Section 33.

Although 15 years have elapsed since the operation of the Administration of Estates Act, 1925, which radically amended the law of distribution, the recent case of *Re Hurd* (1941, 1 All E.R. 238), raised for the first time a difficult point of construction of the Wills Act, 1837, Section 33, which provides that when a beneficiary dies in the lifetime of a testator and is also one of the issue of the testator, then unless there is a contrary intention in the will, the devise or bequest shall not lapse, but shall be effective as though the death of such beneficiary had happened immediately after the testator's death.

In the present case, the testatrix by her will gave to her daughter certain lands and also a share in residue. The daughter had issue, but died intestate in 1923; the testatrix died in 1939. Section 33 of the Wills Act saved that gift from lapse, because of the daughter's issue who survived the testatrix. It was argued that

the gift to the daughter must be administered according to post-1925 law. Farwell, J., held that that was not the legal effect of the Section. The real effect was that, instead of lapsing, the gift became part of the estate of the deceased beneficiary, on the footing that she survived the testatrix. None the less, it must be administered according to the law in operation at the true date of the daughter's death, and the next-of-kin must be ascertained accordingly. The Act of 1837 operated only to prevent lapse, but did not alter the way in which the estate should be disposed of.

Inheritance (Family Provision) Act, 1938—No provision for wife—"Moral obligation."

In *Re Joslin* (1941, 1 All E.R. 302), Farwell, J., dismissed an application by the widow of a testator under the Inheritance (Family Provision) Act, 1938. The testator had married in 1915 and a child was born of the marriage in 1916, but died young. The spouses lived reasonably happily together until 1934 and until then she had assisted him financially. From 1934 the testator lived with another woman, by whom he had two children who survived his death in 1939. In March, 1937, the spouses entered into a separation agreement, the husband agreeing to pay the wife £1 per week. By his will the testator left the whole income of his estate to the other woman for life and after her death to the two children which he had by her. The value of the estate was about £370. The widow had a small income of her own; the other woman was penniless and dependent upon public assistance.

Farwell, J., said that in such a case not only legal obligations of a testator should be considered but also the testator's moral obligations. The testator was in a dilemma. In cases under this Act, the testator is bound to consider how far he is under a moral duty to make provision for children he has brought into this world and for the woman who has borne them. He has also to consider the duty which he owes to the woman who was his lawful wife at his death. The testator has to make up his mind where his real duty lies. The testator had reasonably decided that in all the circumstances his duty was to leave his small estate to the other woman and the children. The jurisdiction under the Inheritance Act is one extremely difficult of administration. The wide discretion given to the Court must be exercised judicially. In the present case the Court did not think discretion should be exercised in favour of the plaintiff (the wife).

MISCELLANEOUS

Hire-purchase—Goods sold to finance company—Whether any implied warranty.

With the increase in the practice of interposing a finance company between the normal vendor and the hirer-purchaser, the recent decision of the Court of Appeal in *Drury* v. *Buckland, Ltd.* (1941, 1 All E.R. 269), is of general interest. The defendants had an ice-cream maker worth £105. The plaintiff paid them a deposit of £10 10s., and agreed to pay the balance (with interest) in several instalments to a finance company. The full terms were contained in an invoice sent to the plaintiff by the defendants, but she entered into a hire-purchase agreement with the finance company and signed a delivery note sent by them. Later the plaintiff complained that the machine was unsatisfactory and she sued the defendants, alleging breach of implied warranty under Section 14 of the Sale of Goods Act, 1893. The contention was that, notwithstanding the part played by the finance company, the transaction was a sale by the defendants to the plaintiff. The defendants contended that it was not a sale by them to the plaintiff, but a contract of hire-purchase between the plaintiff and the finance company. The hire-purchase agreement was in the usual terms and was signed by the plaintiff and also on behalf of the finance company. It provided for payment of the instalments to the finance company, not to the original suppliers of the machine. Instalments had been paid regularly to the finance company from June, 1938, to August, 1939, and the plaintiff admitted having signed a delivery note attached to the hire-purchase agreement.

The County Court Judge held that there was no real transaction of hiring, but that there was a sale. The Court of Appeal held that on the evidence the transaction was clearly one of hire-purchase. Therefore the claim against the original vendors for breach of warranty was unsupported by any contract of sale between them and the plaintiff and the appeal must be allowed. The purchaser's proper remedy would have been against the finance company upon an implied warranty of fitness under Section 8 of the Hire Purchase Act, 1938. She had no cause of action against the original vendor.

STUDENTS

Contractors' Accounts

The system of contractors' accounts usually set out in accountancy text-books advocates the opening, in the main set of books, of a separate account for each contract. To this account debits are made directly and currently for expenditure on wages and materials and at convenient intervals—*via* an overhead allocation account—for reasonable proportions of the total overhead charges. The details of this kind of system can be turned up in any good text-book. Although this system is very neat from a theoretical point of view, and sometimes also convenient from a practical point of view, it is advisable to be aware of its limitations and of the alternative. It is clear that under the ordinary system the accounting records will be kept at the contractor's offices, and this might mean that the records are a considerable distance from the site of the contract. In theory this might not be a very serious drawback, but in practice it will be found that the separation of work and records will lead in the case of a large contract to such a host of queries and matters in suspense that a condition of chaos might quite possibly arise.

In cases where the work under the contract is to extend over a long period, and where large sums are to be expended, the location of the accounting records on the site will be found desirable from almost every point of view.

In such a case, the general system is likely to show many points of similarity to branch accounting. A separate bank account should be opened for the contract, and any sums paid into this account by the contractor will be treated in his main set of books as a credit to the general bank account and a debit to the specified contract account. The site books would be opened by a debit to their bank account and a credit to head office account. As the contractor finances the contract from time to time, similar entries are made in both sets of books. The site books can then be operated in the

normal manner as a separate and self-contained system. Payments through the site bank account, for wages and salaries, for materials and for general expenses in other directions are recorded in the site books only, and can be analysed into a set of accounts headed in any appropriate way. If plant is purchased out of the separate bank account, there is a credit to the bank account and a debit to plant account; if the head office supplies plant to the contract, then in the head office books there is a debit to the specified contract account and a credit to plant account, and in the site books there is a debit to plant account and a credit to head office account. Other expenditure incurred *at the head office* on behalf of the particular contract can be handled along similar lines. If sums are received at the site as payments on account from the other party to the contract they are debited to the bank account and credited to the personal account; when the contract is completed the personal account is debited with the sum due, and the profit and loss account is credited. Possibly this might be done periodically as valuations of the work done are agreed from time to time. At the conclusion a full profit and loss account can be prepared in the site books. The balance of profit or loss is taken to the head office account, and a parallel entry, but in the reverse direction, is made in the head office books. The site books can then be closed finally by a journal entry transferring all the real accounts to the head office account, and again a parallel entry is made in the head office books, thus closing the specified contract account. It is of course essential to keep the head office account in the site books at all times in agreement with the contract account in the head office books. These notes are perhaps sufficient to show that the operation of a self-contained double entry system on a site need not in its broad outlines give rise to any serious or novel difficulties.

The book-keeping system must, however, be supported by a proper organisation for internal checking and control. In connection with wages, this organisation is outstandingly important in view of the fact that large sums of money are likely to be handled each week in actual cash and notes. As a general rule, a system involving tallies and time-books is found convenient. Timekeepers, who should be on duty a little before starting time, hand out the tallies from the board as the men call out their numbers while filing past the timekeeper's office, and at the end of the day the men return the tallies. Books are kept for recording "Late Starts," "Early Finishes" and "Late Finishes," and thus the number of hours to be credited for pay can be determined for each man. Each timekeeper is usually responsible for between 150 and 200 men, so that in time he becomes reasonably familiar with the faces, names and numbers of his men. Thus it is not easy for a man to lift or return two tallies. Once, or preferably twice, daily, each timekeeper takes his time-book out on the site and makes a "field-check" to see that each of his men is actually at work, sighting the tallies as he does so, and marking his time-book in some convenient way. The risk of collusion between a workman and a timekeeper is reduced by test checks made frequently by the senior timekeepers, and occasionally by the chief timekeeper. When the pay week ends, the daily hours in the time-books can be totalled (the books being exchanged between the timekeepers for checking), and it is then not usually necessary to copy the daily details on to the paysheet which will have been prepared in skeleton form during the week. Calculations of the gross wages are made on the time-books and/or on the paysheets, the deductions for insurance, hospital, and so on, are made, and the net payable amount is extended. Care should be taken to recover from the wages all "subs." which have been advanced during the week. The sheets are then handed over to the cashier's office for checking and for the make-up of the pay-packets. The latter follows ordinary routine and calls for no special comment. It is most desirable that the actual pay-out should be made by a pay-clerk *and* a witness at each pay-point. A pay-clerk should not pay out at the same section in successive weeks, nor should he be accompanied by the same witness, nor should any pay-clerk or witness know until shortly before the pay at which section he will be engaged. Payment is made on production of the tally by the workman, who also calls his name; the pay-clerk retains the tally, and the witness ticks off the wages sheet. When the last man has been paid, pay-clerk and witness agree the unclaimed packets with the unticked items on the wages sheet, and each of these items is immediately stamped "Unpaid." All unpaid wages are handed over to the cashier's office, and are signed for if subsequently claimed by the workman. A rubber stamp is usually placed on the wages sheets, so that initials will determine the responsibility for each step of the operations. In practice, the system must be arranged so as to be able to cope with such difficulties as pay-offs during the week, pay-offs between the end of the pay-week (say, Wednesday, p.m.), and the actual pay-day (say, Friday, p.m.), and the transfer of workmen from one section of the site to another.

Space does not permit the examination in detail of the system of control in respect of the purchase of materials, but the essential point is that every invoice before passing through the books should be supported by a copy of the order (or a reference to it), and a copy of the goods received note signed by one of the materials checkers. Each invoice should be stamped so that initials may indicate that the invoice has been checked arithmetically, checked against copy order for price and discount terms, and checked against the goods received note for quantity, quality and condition.

At many other points difficulties will arise which can only be handled by a properly organised system. Charges for plant and lorry hire and charges for the conveyance of workmen must be checked, the supply of labour, materials, tools, petrol, oil, and so on, to sub-contractors and others must be controlled and properly charged, and there are numerous other points no less important. Contractors are often technical men who do not always see eye to eye with their accountants in regard to staff requirements, but the above notes are perhaps sufficient to indicate the folly of approaching a large contract with a staff inadequate in number, housing and equipment.

The latest date for lodging an application for a licence under the Prevention of Fraud (Investment) Act, 1939, has been postponed from March 15 until September, 1941. No applications for licences should be made until the Board of Trade announce that they are prepared to receive them.

The War Organisation of the British Red Cross Society and the Order of St. John have opened a large number of hospitals and convalescent homes throughout the country. The accounting arrangements and the audits are left to the Joint County Committee to organise and the voluntary services of firms of auditors are therefore generally invited locally. If a County Committee finds any difficulty in making arrangements for the audit of the accounts, the Head Office in London endeavours to secure voluntary professional services.

FINANCE

The Month in the City

Markets Ignore Lyttelton Plan

At first blush it might seem that the Lyttelton plan for the concentration of industry announced this month would have been a development of major importance for the industrial share market. In principle, there is no doubt, the telescoping scheme comes near to deserving the title of a " new industrial revolution " which was bestowed upon it in the popular press ; for the Government's threat in the last resort to compel one firm to close down and transfer what remains of its business to a rival concern is a far cry from our tradition of private enterprise, even though in practice the rationalisation process will normally come about through voluntary agreement and compensation arrangements. Actually, the immediate importance of this step is limited by the fact that it affects only those industries whose production for the home market has been curtailed in order to economise raw materials. For the security markets its significance was still further reduced by the fact that there is very little Stock Exchange interest in pottery and leather, two of the most important industries affected. In hosiery and textiles the position is different. But even here it was taken for granted that it is the larger units whose shares are publicly quoted which are most likely to survive as " nucleus " firms. For the rest, it is remembered that many firms in inessential trades have already diverted their activities largely to war production (including exports), while voluntary compensation schemes should prevent too drastic a change in the earning prospects even of the firms which are closed down.

The Viscose Sale

In the result, therefore, the plan has had very little impact on share values, though it may have helped to aggravate the stagnation in business. In the first half of the month the *Financial News* index of ordinary shares sagged at one point to 67.1, completing a decline of about 9 per cent. from the January peak of 73.7, but has since rallied a little to show a slight fall on the month at 67.5. An outstanding individual movement has been a sharp jump in Courtauld shares on the announcement that the Treasury has sold the company's American subsidiary, the American Viscose Corporation, to an American banking syndicate. While the actual purchase price has not yet been announced, the assumption of a figure even as low as £20,000,000 would mean that at 31s. the price of the shares includes only 14s. 4d. in respect of the British industrial interests, together with liquid assets of £12,000,000 at the date of the last balance-sheet, this item alone representing some 10s. per share. Industrials generally, however, make a dull showing, and the chief feature of markets, once again, is the persistent strength of gilt-edged, which continue their steady climb into fresh high ground. During the month War Loan has touched a new high since 1937 of 104⅛, while the fixed-interest index has advanced a further point and a half to 128.0. Kaffirs were little affected by the South African budget proposals, but there has been some activity in developing mines following the strike of Blyvoor, whose shares shot up from 7s. 9d. to 11s. 3d.

Municipal Conversions Again

The past month has at last seen the lifting of the Treasury ban on municipal loan conversions. Throughout 1940, as is well known, the authorities rigidly set their face against the conversion of the spate of maturing local borrowings having an optional redemption date and carrying high rates of interest. Originally this policy was undoubtedly adopted as part of the official technique of managing the gilt-edged market, with the object of preventing any competition with the Government for the available supply of savings. Funds are diverted away from the gilt-edged market, however, only to the extent that those holders who demand cash fail to reinvest the proceeds. If the reason for this failure to reinvest is that the recipients of the money wish to hold it in liquid form, it is the essence of a cheap money policy that this desire for liquid assets should be satisfied. If the money is devoted to consumption expenditure, on the other hand, the position is admittedly different, but the market has never been able to believe that this factor could assume sufficient importance to justify the imposition of a large additional interest burden on local authorities whose finances are in some cases already severely strained by war factors. Whether the Treasury has been induced to change its mind by experience with the requisitioned securities, the proceeds of which must have been almost entirely reinvested, is not known ; the important thing is that the present anomalous position is at last to be ended. The lifting of the ban affects no less than £32,750,000 of stocks repayable before October 1 next, of which some £12,000,000 carry interest at the high rate of 6 per cent., while the average rate is over 5½ per cent. Since the rate should be reduced on conversion to something under 3¾ per cent., the saving of interest to the municipalities concerned will amount to some £500,000. At the time of writing it had not been made known whether the conversion would take the form of a single omnibus issue or a number of individual conversions. Roughly, one-quarter of the whole is estimated to be held by the discount market as a " short," and cash for the repayment of this amount, together with any other " dissented " stock, will be found by the Local Loans Fund. Since there is, in consequence, no possibility of any issue proving a failure, the official supervision of this operation must tend to accentuate the tendency of recent years for different authorities to borrow on approximately the same terms, almost irrespective of their financial position.

Points from Published Accounts

Borax Consolidated

The report of the directors of Borax Consolidated emphasises that the accounts are this year presented " in revised form in line with modern practice." To say that the changes made are not revolutionary is scarcely a criticism, for the company has always submitted a detailed and informative statement and the scope for improvement was therefore limited. As before, the fixed assets are divided into three groups—mines and deposits, capital invested in subsidiaries, and freeholds, plant, etc.—and then totalled ; but the second item now includes not only shareholdings in subsidiaries and debentures of those companies, the value being stated in each instance, but also advances to and current accounts with them. Previously these were stated separately among the other assets, which now have been arranged in a rational order, with current items grouped

and totalled. On the liabilities side, the taxation reserve has been segregated from creditors, and the various other reserves have been grouped so as to indicate, broadly, whether they are free or specific. The credit shown at profit and loss in the balance sheet is the " balance proposed to be carried forward," whereas previously this account showed deductions for debenture interest, interim preference dividend, depreciation and debenture redemption. Some of this working was repeated again in the directors' report, where other dividend appropriations and reserve allocations were divulged. Under the new method all these transactions are detailed in separate profit and loss, and appropriation, accounts. There is, however, one notable deficiency. Hitherto income from investments and associated companies has been shown separately, but now the revenue from associated companies is included with trading profit. This revenue normally represents a considerable proportion of total income and includes a return on the holding in United States Potash. Failure to give any detail concerning it is specially unfortunate in view of the threat to requisition all direct investments held by United Kingdom interests in the U.S. The explanation is, no doubt, to be found in the intimation that the omnibus trading profit has been struck after providing for " losses arising on assets in enemy-occupied territory not otherwise provided for." From the chairman's speech it appears that profits have been struck after making provision to cover floating assets in these territories, while full cover for the fixed assets involved has been furnished by earmarking a special reserve, created in 1937 under exceptional circumstances, as a war contingency reserve. Comparative figures relating to the previous year are given throughout the accounts.

Treatment of Dividends

Whether the new method of Borax Consolidated in giving full effect in its balance sheet to proposed dividend appropriations is really " in line with modern practice " is a point that will be contested. The widely differing opinions held on this matter were exhaustively discussed in two articles on " The Treatment of Dividends in Accounts " which appeared in the issue of ACCOUNTANCY for October, 1938. A compromise practice is followed by Tobacco Securities Trust. The balance taken forward on revenue account is stated before the deduction of the proposed final dividend on the ordinary capital and the first and final dividend on the deferred capital. This avoids classifying as liabilities payments which are conditional upon shareholders' approval and which in any case do not fall to be made until some months after the date of the accounts. The objection that this method does not show at a glance the total of reserves and undivided profits or the precise amount of the working capital is countered partially by showing on the face of the balance sheet (as well as in the directors' report) how the carry-forward is to be appropriated. To arrive at these two figures still involves some pencilling, but they can be found with the minimum of trouble.

Bristol Tramways and Carriage

Changes of a more fundamental nature than those adopted by Borax Consolidated have been made in the profit and loss statement of the Bristol Tramways and Carriage Co., but they are less involved, and they do not secure the honour even of a casual mention in the directors' report. A year ago the profit was stated—subject only to directors' fees of £2,500 and interest charges of £131—at £240,685. This sum was described as " Balance from revenue account, including interest and dividends on investments, after providing for depreciation of motor vehicles and plant, taxation (including the estimated liability for Excess Profits Tax), etc." On this occasion the description ends at the word " plant," and income tax and provision for Excess Profits Tax are shown as a debit of £196,857. There is, too, a new charge of £15,000 as provision for war damage insurance; but, more than that, there is a debit of £105,719 for fuel tax and vehicle licences—which is, of course, an annual expense. In comparing last year's profit figure of £240,685 with that of £525,696 now recorded, it is necessary, therefore, to remember not only that taxation has yet to be provided this time but that there is such a thing as motor taxation as well as income tax and E.P.T. At a time when the tendency is for companies to suppress the amount of their tax provisions, so as to conceal the extent of their liability to E.P.T., the frankness of Bristol Tramways is refreshing. The value of the more detailed profit and loss statement is, however, to some extent vitiated by the lack of comparative figures. Nominally there is a net profit of £205,639 to go against the 1939 figure of £238,055, subject in each case to the deduction of £20,000 for preference dividend and £124,024 for ordinary dividend. But the last mentioned sum is this time a gross amount, representing 8 per cent. less tax, whereas in the previous accounts it was a net amount, representing 8 per cent. tax free. Allowing for tax at 7s. the 1939 distribution to ordinary shareholders was therefore equivalent to approximately £191,000 gross. And on the same basis the figure to which the 1940 net profit of £205,639 ought to be compared is £305,000, showing a decline of £99,000 instead of the £33,000 at first apparent.

Disclosure of Asset Values

The accounts of Amalgamated Cotton Mills Trust provide an interesting instance of full disclosure of asset values without the presentation of a consolidated balance sheet. The parent company has an assets total of £2,983,514, of which £1,046,477 is represented by the net interest in subsidiaries. Immediately underneath this item a panel is inserted summarising the assets and liabilities of the subsidiaries. In this the fixed assets are brought in at £438,820 and the current assets (which are particularised) at £1,049,545, the net total, after deduction of current liabilities of £441,888, corresponding with the value placed upon the holding in these concerns in the parent company's accounts. This method of demonstrating the significance of interests in subsidiaries is followed, in a simple form, by another textile undertaking, North British Rayon, whose balance sheet habitually bears a note stating: " The current account of the subsidiary company is represented by the cash, stocks and debtors of that company." It is, however, not capable of universal application with satisfactory results. For instance, where the valuation placed upon investments in subsidiaries included a sum for goodwill or other intangible assets, the uninformed investor might easily neglect to compare that sum with the total of the parent company's reserves. Even with Amalgamated Cotton Mills the student of the accounts is left with the task of aggregating each item in the panel with the like entry in the balance sheet proper before he can gain a bird's eye view of the composition and distribution of the group's assets. Information of this sort loses much of its value if not presented in an easily assimilable form. A case in point is furnished each year by Ind Coope and Allsopp. The assets and liabilities of the company itself are stated in great detail. Then they are summarised in a separate statement with the corresponding items for the subsidiaries displayed in a parallel column. But no effort is made to co-ordinate the two sets of particulars by totalling them in a third column.

Solicitors' Accounts

A revised Bill has been introduced into the House of Lords with a view to giving effect to the recommendations of the Council of the Law Society which were summarised in an article in ACCOUNTANCY in April, 1940. The new Bill follows largely the draft of the previous Bill which was introduced last session, and the full title reads : " An Act to require accountants' certificates as to compliance with the Solicitors' Accounts Rules, to establish a fund for relief in certain cases of losses due to dishonesty of solicitors, to reduce the stamp duties on solicitors' practising certificates, to make provision with respect to membership of the Law Society and with respect to the Council and Committees thereof, to amend the enactments relating to Solicitors, and for purposes connected therewith." Clause 1 of the revised Bill provides that, subject to special exceptions, every solicitor shall, once in each practice year, deliver to the Registrar a certificate signed by an accountant and complying with the provisions of the section. It follows the previous Bill in providing for the making of rules to be known as " the Accountant's Certificate Rules," which shall prescribe the qualification to be held by an accountant by whom such a certificate may be given, the nature and extent of the examination of the books and the form of the certificate. It is proposed that the accountant's certificate shall cover not less than twelve months (except in particular circumstances), and that the accounting period covered by such certificate shall correspond to a period or consecutive periods for which the accounts of the solicitor or his firm are ordinarily made up.

In this connection it is to be noted that the Council of the Law Society propose to submit to the Master of the Rolls for his approval amendments of Rules 4 and 5 of the Solicitors' Accounts Rules, 1935, in order to clarify the meaning as to what may be drawn from a client account and what need not be paid in. Rule 4, as it at present stands, provides that " money in respect of which there is a liability of the client to the solicitor " may be drawn out as well as " money properly required for or towards payment of a debt due to the solicitor from a client." The view has been expressed in legal circles that there is really no distinction between these phrases, but that they might be interpreted as meaning that the solicitor must proceed to judgment in order to define his debt. A further proposed amendment is to secure that when a client has been notified of the amount of costs earned a transfer of such amount from client account to office account should be permissible if sufficient funds are held in that account to the client's credit, and that the solicitor should pay into client account money received from a client on account of costs unless the costs have already been incurred and a bill of costs or other note of charges has been delivered, or unless the money is paid as an agreed fee for business undertaken or to be undertaken. The Council of the Law Society have asked for observations from their members upon the proposed amendments, and the ultimate submission to the Master of the Rolls will presumably depend to some extent upon any observations received.

In Parliament

LOCAL AUTHORITIES' LOANS (CONVERSION)

Sir Kingsley Wood announced that he was now prepared to consider applications by local authorities for permission to give notice of repayment of stocks carrying more than 4 per cent. interest, with a conversion offer on terms to be approved by the Treasury. He proposed to take power in the Public Works Loans Bill for the Treasury to advance out of the Local Loans Fund amounts required to repay unconverted stock.

PUBLIC UTILITY COMPANIES AND UNDERTAKINGS (ACCOUNTS AND MEETINGS)

The Minister of Information (Mr. Duff Cooper) said that the Government had under most careful consideration the possibility of the enemy acquiring information of military value through the publication of the accounts, annual reports and chairmen's speeches of public utility companies and undertakings. Pending a decision by the Government Departments concerned, which would be taken in the near future, he hoped that chairmen and directors of such companies would postpone the publication of accounts and the holding of meetings. He was sure that shareholders and others concerned would realise that the request was dictated solely by reasons of national security.

TAX-FREE CONTRACT PAYMENTS

Captain Crookshank, in reply to a suggestion by **Sir Irving Albery,** said the Chancellor of the Exchequer did not think there was sufficient ground for asking Parliament to render illegal all contracts involving payments free of taxation.

WAR DAMAGE BILL (FURNITURE STORAGE)

Mr. Lyttelton said that, although the details were not finally settled, the Government intended that all persons who were householders at the outbreak of war should be treated as if they were still householders for the purpose of free compensation for war damage to furniture and other personal belongings.

INCOME TAX (PROPERTY, NON-OCCUPATION)

Captain Crookshank, replying to **Mr. Rostron Duckworth,** stated that the question of relief from Schedule A tax where residential property was empty, or partially empty, owing to war conditions, would depend on the circumstances of each individual case. If a house was used solely for storing furniture, and no rent was payable, a relief would be allowed from income tax, Schedule A, corresponding to any relief allowed for rating purposes.

The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the war-time enactments and Orders which most concern the accountant. The series is brought up to date each month, and the eighteenth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ACTS

War Damage Act, 1941.

Provision is made for compensation for war damage to buildings, plant and business effects, and personal chattels. Personal chattels are insured free up to prescribed amounts, and may be covered to a maximum of £10,000 on payment of premium. Under the other schemes compulsory contributions are payable.

(See ACCOUNTANCY, March p. 94.)

ORDERS

EXPORTS

Nos. 192, 241, 282, 308, 309, 355. *Export of Goods (Control) Orders*, 1941, *Nos.* 6 *to* 11.

No goods may be exported to Brazil, Chile, Colombia, or Peru. Further amendments are made in the schedule of goods subject to export control. The Faroe Islands and Iceland are removed from the list of destinations to which goods marked " C " in the Schedule may not be sent.

(See ACCOUNTANCY, March, p. 100.)

FINANCE

No. 233. *Blocked Accounts (Authorised Investments) Order*, 1941:

The Blocked Accounts (Authorised Investments) Order, 1940, is revoked, and a revised list is given of Government securities in which sums standing to the credit of a blocked account may be invested.

(See ACCOUNTANCY, January, p. 67.)

LIMITATION OF SUPPLIES

No. 185. *Limitation of Supplies (Woven Textiles) Order*, 1940, *and Limitation of Supplies (Miscellaneous) (No.* 5) *Order*, 1940. *General licence.*

Registered persons may supply goods to dealers to replace goods which are certified to have been supplied by them to a local authority or to the Women's Voluntary Services for Civil Defence.

No. 202. *Limitation of Supplies (Miscellaneous) (No.* 7) *Order*, 1941.

No. 203. *Limitation of Supplies (Woven Textiles) (No.* 5) *Order*, 1941.

The Board of Trade may remove names from the register. The Board may also regulate or prohibit the supply or acquisition of controlled goods by any person or class of persons.

No. 204. *Limitation of Supplies (Miscellaneous) (No.* 5) *Order*, 1940. *General Direction in respect of Information and Returns.*

No. 205. *Limitation of Supplies (Woven Textiles) Order*, 1940. *General Direction in respect of Information and Returns.*

Returns must be sent to the Board of Trade by any registered person who carries out a process in the manufacture of controlled goods, if he supplies to another registered person controlled goods of any class to a total value exceeding by more than £1,000 the value of the goods supplied by him to that person in the standard period. An unregistered dealer must make a return if he receives from a registered person controlled goods exceeding by more than £1,000 the value of goods of that class supplied to him by that person in the standard period. Registered persons must inform the Board of any loss, by enemy action of otherwise, of records of transactions in controlled goods.

No. 323. *Limitation of Supplies (Woven Textiles) (No.* 7) *Order*, 1941.

The limitation of supplies of woven textiles is continued for the period April 1 to September 30, 1941, and is extended to woollen piece-goods and made-up goods from March 15. Registered persons may not supply more than the following percentages of the quantities supplied in the period April 1 to September 30, 1939: Cotton, linen and silk, 20 per cent.; rayon, 40 per cent.; wool, 30 per cent.

(See ACCOUNTANCY, March, p. 100.)

PREVENTION OF FRAUD (INVESTMENTS)

No. 240. *Prevention of Fraud (Investments) Act Licensing (Amendment) Regulations*, 1941.

The date for applications for enrolment on the register of stock and share dealers is further postponed to September 15, 1941.

(See ACCOUNTANCY, October, 1940, p. 10, and this issue, p. 123.)

TRADING WITH THE ENEMY

No. 51. *Order in Council amending Regulation* 2 *of, and adding Regulation* 3B *to, the Defence (Trading with the Enemy) Regulations*, 1940.

Further slight amendments are made in the wording of the Trading with the Enemy Act, 1939.

Nos. 189, 290. *Trading with the Enemy (Specified Areas) Orders*, 1941, *Nos.* 1 *and* 2.

The provisions of the Trading with the Enemy Act are applied to Rumania and Bulgaria.

No. 217. *Trading with the Enemy (Specified Persons) (Amendment) (No.* 3) *Order*, 1941.

Insertions, deletions and amendments are made in the revised schedule of traders in neutral countries who are deemed to be enemies.

(See ACCOUNTANCY, March, p. 101.)

WAR RISKS INSURANCE

No. 245. *War Risks (Commodity Insurance) (No.* 1) *Order*, 1941.

The premium under the commodity insurance scheme is at the rate of three-eighths of one per cent. per month for the three months beginning March 3, 1941.

(See ACCOUNTANCY, January, p. 67.)

Society of Incorporated Accountants

ANNUAL GENERAL MEETING

The Annual General Meeting of The Society will be held at Incorporated Accountants' Hall on Thursday, May 22, 1941, at 2.30 p.m. The President, Mr. Percy Toothill, will occupy the Chair.

DISTRICT SOCIETIES AND BRANCHES

SCOTTISH BRANCH

Annual Meeting

The sixty-first annual meeting of the Scottish Institute of Accountants, the Scottish branch of the Society, was held in Glasgow on the 14th ultimo. Mr. Robert T. Dunlop, president of the branch, presided.

The Chairman referred to the resignation of Mr. E. Mortimer Brodie, who had been a member of Council for the past fifteen years, and Mr. James T. Morrison, formerly Town Chamberlain of Coatbridge, for twelve years. The good wishes of their colleagues and the meeting will go with these members in their retirement.

The Council had had to consider many questions affecting the work of the professional accountant arising out of the emergency legislation and Departmental Orders, and the work of members had been made more difficult when it had to be done with depleted staffs. However, they had just to carry on and do their best under those strenuous conditions.

The retiring members of Council were re-elected, and Mr. James A. Scott, Town Chamberlain, Kilmarnock, was elected to fill a vacancy. The President and Secretary were re-elected representatives on the London Council.

The retiring honorary auditors, Mr. James A. Mowat, F.S.A.A., and Mr. John S. Gavin, Junr., F.S.A.A., Glasgow, were re-elected.

On the motion of Mr. J. Weir Neilson, a cordial vote of thanks was accorded to the Chairman, who, in returning thanks, referred to the interest and work of the Secretary, Mr. James Paterson, on behalf of the members of the Scottish branch and of the students in Scotland.

Sixty-First Annual Report

DEATHS OF MEMBERS

The Council have to report with regret the deaths of Mr. William Dunn Wallace, A.S.A.A., Kirkcaldy, and Mr. William Duncan Fisher, F.S.A.A., Glasgow. Mr. Wallace, who was in his 70th year, was one of the oldest members of the Scottish Branch. Mr. Fisher had been a member of the Branch since 1907, and for past four years was one of the honorary auditors.

WAR EMERGENCY LEGISLATION

From the emergency legislation and Orders a considerable number of questions affecting the work of professional accountants have arisen, and these have had the careful consideration of the Council of the Society and have been dealt with by the Council of the Branch from time to time. The Secretary of the Scottish Branch will be glad to give every assistance in his power to members in Scotland or their clerks.

LONDON COUNCIL

As in former years, the President and Secretary represent the Scottish Branch on the London Council, and report to the Scottish Council from time to time matters affecting Scottish interests. Appropriate action is taken when necessary and the advice and assistance of Mr. A. A. Garrett, Secretary of the Society, is freely given and much appreciated.

Meeting of Council

A meeting of the Scottish Council was held in Glasgow on Friday, the 14th ultimo. There were present Mr. Robert T. Dunlop, president of the branch, who presided, Messrs. Peter G. S. Ritchie, vice-president; William Houston and Mr. Robert Milne, Glasgow; Mr. James C. McMurray, Kilmarnock; Mr. Festus Moffat, J.P., Falkirk; and Mr. James Paterson, secretary of the branch.

Mr. James M. Roxburgh, F.S.A.A., Port Glasgow, was co-opted a member of Council in room of Mr. James T. Morrison, resigned.

Mr. Robert T. Dunlop was re-elected president of the branch, and Mr. D. R. Matheson, LL.B., Mr. Walter MacGregor, J.P., and Mr. Peter G. S. Ritchie, vice-presidents.

The Late Mr. John S. Gavin, Senr., F.S.A.A.

We regret to have to record the death, on the 14th ultimo, of Mr. John Steel Gavin, Senr., senior partner of the firm of John S. Gavin & Son, Incorporated Accountants, Glasgow. Mr. Gavin, who became a member of the Society in 1906, carried on a large practice, being joined in recent years by his son. He was 78 years of age, and took a keen interest in the work of the Scottish branch, and, in its early days, also in the Glasgow Incorporated Accountants' Students' Society.

LONDON STUDENTS' SOCIETY

Annual Meeting

The fiftieth annual meeting of the Incorporated Accountants' Students' Society of London and District was held at Incorporated Accountants' Hall on March 25, 1941.

Mr. S. T. Morris, F.S.A.A., President, presided.

The Society having reached its fiftieth anniversary, the President and Committee desired to place on record that during the whole period of its history Mr. William Strachan, F.S.A.A., had been a member of the Committee and had rendered very great assistance to the Society. It was regretted that owing to war conditions it was not practicable to honour Mr. Strachan in a manner which the members would have wished, but it was desired to take this opportunity of expressing their sincere appreciation of his very valuable services.

PERSONAL NOTES

Messrs. Keens, Shay, Keens & Co., Incorporated Accountants, of Bilbao House, New Broad Street, E.C., and at Luton, Bedford, Harrow, Aylesbury, Stony Stratford, Hitchin, Buckingham and Newport Pagnell, announce that Mr. A. J. H. Shay retired from the firm on February 28, 1941, for reasons of health. The practice will be continued under the same title, the constitution of the firm remaining otherwise unchanged. Mr. Shay will continue his association with the firm in a consultative capacity.

Messrs. Keens, Shay, Law & Co., of Derby and Matlock, announce that Mr. A. J. H. Shay retired from the firm on February 28, 1941, for reasons of health. The practice will be continued under the same title, the constitution of the firm being otherwise unchanged.

Mr. Francis Haslam, Incorporated Accountant, has commenced public practice at 7, Winckley Square, Preston.

Mr. J. R. Batliboi and Mr. M. D. Darbari, formerly practising under the style of Batliboi & Purohit, Incorporated Accountants, at 100, Clive Street, Calcutta, announce that the partnership has been dissolved. Mr. R. J. Batliboi has retired as from January 1, 1941, and Mr. M. D. Darbari will continue the practice under the style of Batliboi, Purohit and Darbari, at the same address.

Mr. E. A. Savage, A.C.A, Incorporated Accountant, announces that he has acquired the practice of the late Mr. Charles Bartlett, Chartered Accountant, of 10, Orchard Street, College Green, Bristol. The practice will be continued by him under the style of Charles Bartlett & Co.

REMOVAL

Messrs. Morgan Bros. & Co., have removed their offices to 38, Leigham Drive, Isleworth, and 2, Dennis Parade, Winchmore Hill Road, Southgate, London, N.

OBITUARY

JOHN CARL CRYER

We have learned with regret that Mr. John Carl Cryer, A.S.A.A., died in December last, at the age of 50. Subsequent to service with H.M. Forces during the Great War, Mr. Cryer passed the Society's Examinations and became a member of the Society of Incorporated Accountants in 1920. Since 1929 he had held the post of accountant to the Leeds Education Committee. He took a considerable interest in the affairs of the Society in Leeds, and in 1935 was elected a member of the Committee of the Incorporated Accountants' District Society of Yorkshire.